

March 20, 2000

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WPS Energy Services, Inc.

00-0199

Application for Certificate of Service Authority
Under Section 16-115 of the Public Utilities Act

CHIEF CLERK'S OFFICE

**RESPONSE TO
NOTICE OF HEARING EXAMINER'S RULING**

WPS Energy Services, Inc. ("WPS-ESI") files the following response to the Notice of Hearing Examiner's Ruling dated March 13, 2000.

451.30(a): Proof of Publication; Notice to Utilities

Attached please find proof of publication in the Official State Newspaper, the Edwardsville Intelligence. The legal notice appeared on March 10, 2000. The original Certificate of Publication, including a copy of the notice, was received by Donna Caton, Chief Clerk of the Illinois Commerce Commission, on March 17, 2000.

451.30(c)(3): Notice to Utilities

Mr. Gene Reuter is a "Special Projects Analyst" with Alliant Energy. According to the Alliant Energy Supplier Handbook, he is the contact for all ARES registration requirements. As the hearing examiner's request for information points out, WPS-ESI sent a single letter of notification to Mr. Reuter of its intent to serve Alliant Energy's service areas in Illinois but did not specify service areas of Interstate Power and South Beloit.

By this response to the Hearing Examiner's request, WPS-ESI intends to withdraw its application for ARES certification in the service areas of Alliant Energy subsidiaries, WPS-ESI is also withdrawing its application for the service areas of Mid-American Energy, Ameren UE, and Mt. Carmel Public Utility. The basic reasoning for withdrawing from the above service areas is that WPS-ESI currently does not have a customer base in these areas and does not have ample time to provide the information requested by the hearing examiner that is needed to support a case against reciprocity in these areas. Further detail on reciprocity is discussed later in this response.

Letters withdrawing our intent to serve customers within the service territories of the aforementioned utilities were sent March 16, 2000. Copies of these letters are attached to this response as Exhibit 1. At the Commission's request, WPS-ESI will re-publish legal notice of its application for Certificate of Service Authority under Section 16-115 of the Public Utilities Act in the Edwardsville Intelligence and note that it seeks to serve

customers located in specific service territories. WPS-ESI will also file an amended application if so desired by the Hearing Examiner.

451.40: Customer Records and Information

In item 12, page 4, of its original application, WPS-ESI agrees to adopt rules ensuring retention of customer records, information and requests. In addition, WPS-ESI hereby agrees, as part of this response to the hearing examiner, to make the records which are the subject of code 451-40 (a) available by request to the commission or its staff on a confidential and proprietary basis as necessary to carry out the Commission's obligations under this Act.

451.120/130: Technical and Managerial Qualifications

83 Illinois Administrative Code 451.120 (b) requires a WPS-ESI staff with at least 2 years demonstrated electric sales experience and 2 years operational experience. Attachment F of WPS-ESI's application lists several personnel with such experience. Exhibit 2 attached to this response provides additional biographical information for the staff listed in the original application. Specifically, the information for Mark Radtke, Phil Mikulsky, Dan Verbanac, and Bill Boerschinger demonstrates compliance with 451.120(b).

Exhibit 2 also provides information on the personnel used to meet requirements of 451.130(b). Rikki Stanley-Lolles, Kirsten Young, Phil Mikulsky, Mark Radtke and Dan Verbanac meet these requirements,

451.110(a): Penal Bond

WPS-ESI agrees to amend its License or Permit Bond included in Attachment D of its application to provide a more appropriate condition precedent(s). The following language will be included in the revised bond, as suggested in the hearing examiner's ruling.

THE CONDITIONS OF THIS OBLIGATION IS SUCH, That WHEREAS, the Principal has been or is about to be granted a license or permit to do business as to operate as an ARES (Alternative Retail Electric Supplier) under 220 ILCS 5/16-115 and is required to execute this bond under 83 Illinois Administrative Code Part 451.110 by Obligee.

NOW, Therefore, if the Principal fully and faithfully perform all duties and obligations of the Principal as an ARES, then this obligation to be void; otherwise to remain in full force and effect.

The new bond is attached to this response to the Hearing Examiner as Exhibit 3.

SECTION 16-115(D)(5) OF THE ACT: RECIPROCITY

The following information and comments are provided in response to the Hearing Examiner's requests regarding Attachment C. Attachment C in WPS-ESI's application addresses reciprocity. A topic heading, page number, and paragraph are provided with each response as a reference back to each specific request of the Hearing Examiner.

Firm transmission capacity, ComEd to WPSC, Page 3, Paragraph 6

Wisconsin Public Service Corporation (WPSC) has arranged for firm transmission service from the Commonwealth Edison Company (ComEd) control area to the WPSC control area in 1998, 1999, and 2000. For 1998 and 1999, no firm capacity was purchased. Instead firm service for these years include firm pricing by the transmission owning utility of short term firm service, available on a day-ahead basis. Most of the energy this transmission service delivered was short-term, non-firm energy, purchased on a day-ahead basis. Although utility billing records show this service to be priced as firm, it is not equivalent to purchasing firm transmission capacity. The transmission WPSC arranged for in 1998 and 1999 was subject to interruption by the transmission owner since it had a priority below the network needs of the transmission utility. WPS-ESI does not consider this to be firm service for retail customers in the WPSC control area unless an integrated supply network, located in the control area, is available as back-up. FERC transmission tariffs also would not consider this firm service since the energy source is not a firm network resource.

Exhibit 4 shows the total energy WPSC purchased from ComEd in 1998-1999. These non-firm, short term purchases accounted for a very small portion of WPSC's system requirements. Exhibit 5 shows how much transmission service for these purchases was billed as firm under the conditions described above. This exhibit also illustrates the lack of available transmission service in the summer peak months for even day-ahead firm service.

In the year 2000, WPSC has arranged for a full year of short-term, firm, point-to-point transmission service from ComEd to WPSC. Transmission service for 50 MW is contracted for in winter, spring, and fall months, 20 MW in May, and 40 MW in summer months. This transmission service was purchased to deliver a limited term energy purchase from ComEd. This purchase is in response to a 50 MW RFP for firm power issued by WPSC. ComEd responded with limited term non-firm energy which has no capacity element and can be cut before ComEd interruptible customers. Requests for bids were made to Ameren and Illinois Power without getting a response. Transmission service was not available from the south, through ComEd, to the path approved for WPSC at Byron.

Exhibit 6 is a copy of a letter verifying the nature to the transmission service purchased from ComEd. It shows the OASIS numbers that can be viewed to see the details of the transmission reservations.

This transmission service for year 2000 was arranged prior to the ATC calculations used for Table IV, page 13, of Attachment C in WPS-ESI's application. This table illustrates how no further transmission reservations could be made for the summer of 2000. Even WPSC's 50 MW energy purchase could not be fully delivered.

Assigning transmission capacity to others, Page 3, Paragraph 7

WPSC could not and would not assign or resell, to another entity, transmission service it has currently purchased from the Corn-Ed control area to the WPSC control area.

First, WPSC does not have a transmission tariff in place that allows for such a reassignment or resale of purchased capacity. Many transmission utilities do however, have such tariffs and WPSC knows no reason why it would not be granted one should it apply.

Secondly, WPSC would not wish to assign transmission rights to others because they are needed to serve the needs of the WPSC network and its native load obligations. Truly firm transmission capacity for firm energy purchases allows WPSC to meet its reliability and system reserve requirements. All of WPSC's existing firm transmission service into its control area is purchased for this purpose. The 2000 arrangement with ComEd, mentioned above, can not be used for this purpose since the energy is non-firm. Transactions like this one with ComEd are done to help WPSC manage power supply costs for its customers and shareholders during periods of extraordinary energy price increases. This service gives WPSC access to fixed price energy from ComEd. Even if the price is higher than WPSC system costs, the fixed level manages price risk. Again it would not be advisable to assign the associated transmission rights to others.

Additional wheeling costs for MEC, Interstate Power, South Beloit, Page 4, Paragraph 1 and 2

In its ARES application, Attachment C, WPS-ESI asserted that the ComEd option represents the most competitive option for Illinois utilities. This assertion was based on data available for the four major Illinois utilities and did not consider specifics for MidAmerican (MEC) and the two Alliant companies, which do not have generation in Illinois. The assertion may not be accurate for these three companies.

Since WPS-ESI will be withdrawing its application to serve customers in these areas, as mentioned in the response to 451.30(c)(3), no further data will be provided at this time to demonstrate additional wheeling costs. If WPS-ESI should apply for certificate of service authority in MEC, Interstate Power, or South Beloit service areas in the future, adequate data will be provided to support any assertions made at that time. In general, WPS-ESI believes that since MEC and Interstate connect to the Alliant-West system, which is south and west of transmission interfaces with Wisconsin, they face similar physical difficulties in moving power north into WPSC as do Illinois companies. They would also need to pay transmission charges on their system as well as ComEd's system since ComEd is the contract path. WPS-ESI's arguments do not apply to South Beloit.

Table III in Attachment C, Marginal Cost of Capacity, Page 4, Paragraph 3

A \$5/kw-mo marginal cost of capacity was used for calculating the cost of power and energy in Table III of Attachment C. This figure was derived from the 1999 Neutral Fact – Finder’s report. Within this document on Table 1, Method 1, page 16, values for summer capacity (\$7.218/kw-mo) and non-summer capacity (\$4.964/kw-mo) are shown. Exhibit 7 of this response shows a copy of this table. WPS-ESI assumed these prices were reasonable indicators of the price of marginal capacity. These figures yield a monthly average of \$5.71/kw-mo. Conservatively, a value of \$5/kw-mo was used in Attachment C, Table III. Since the marginal capacity costs are used on the ComEd side and the WPSC side of the Table III – Incremental Cost Comparison, a different cost will not change the outcome of the comparison. ComEd will still compare higher than WPSC.

Regarding WPS-ESI’s position on ComEd selling capacity at a price below the marginal cost of capacity, we feel it would not be economical for them to do so. The marginal cost of capacity is in essence the market price of capacity. Since the price used by WPS-ESI is believed to be roughly equivalent to marginal peaking capacity, it can be assumed to be an appropriate price for both the Wisconsin and Illinois markets. Since the cost is on both sides of the comparison equation as mentioned above, the issue is not so much the price of the capacity but is whether ComEd could sell at a price below market. When making judgments about the ability for an Illinois utility to economically deliver power and energy to the WPSC control area. WPS-ESI does not consider selling below market to be the standard for comparison. If the price is the market price of capacity, it does not make sound economic sense for ComEd to sell below market price just to compete in Wisconsin. WPS-ESI recognizes that the ComEd system may have excess capacity in its remaining generation fleet in the future. The cost of this capacity may be below the market price, or marginal price of capacity. Again, however, selling this capacity out of state at below market prices does not seem to be a reasonable standard of comparison to WPSC. In addition it would seem that below market sales would be to the detriment of customers paying for this generation.

Table I, II, III, Attachment C, use of Docket No. 6690-UR-111, Page 4, Paragraph 4

This paragraph from the Notice of Hearing Examiner’s Ruling requests information regarding the use of WPSC’s docket no. 6690-UR-111. Referring to page 6 of Attachment C, Table I – Power Purchase Option Comparison, there are two components of this table that note Docket No. 6690-UR-111 as their source of information. These components are also found in Table II – Market Index Comparison and Table III – Incremental Cost Comparison. Exhibit 8 of this response provides copies of the documents and worksheets used to calculate the components for WPSC industrial customers with demands between 1000-5000 kw, referred to as CP-1 customers.

The first component, which is found in Tables I, II, and III, is the WPSC delivery charge. This includes a combination of transmission and distribution costs. Page 1 of the attached Exhibit 8 (Exhibit (JGG), Schedule 1, page 116, from 6690-UR-111) shows the total dollars allocated by function to the CP-1 rate schedule. Transmission and

distribution costs include the first four columns of numbers. The summation of these numbers, \$20,757.989, divided by the total annual CP-1 usage of 3,131,231,810 kWh found on page 2 of Exhibit 8, equals \$.00663/KWH or \$6.63/MWH. Page 3 of Exhibit 8 (Exhibit (JGG), Schedule 1, page 4, from 6690-UR-111) shows cost per kWh of the functionalized values and the summation of the transmission and distribution columns again equal to \$.00663/KWH.

The second component, WPSC Average Industrial Rate of \$32.1/MWH, is found in Tables I and II. It was calculated using the CP-1 revenue requirement from page 4 of Exhibit 8 (Exhibit (JGG), Schedule 1, Page 1, 6690-UR-111) which is \$100,414,222, and divided by the total annual CP-1 usage of 3,131,231,810 kWh found on page 2 of Exhibit 8. This \$32.1/MWh can also be found in the Total Cost per kWh for CP-1 customers on page 3 of Exhibit 8. Total costs include the cost of system losses.

On Table III, there is a value of \$31.7/MWH representing an equivalent power and energy cost for WPSC compared to ComEd's incremental cost calculation. This number was derived by taking the WPSC simple system average energy cost for CP-1 customers of \$16.51/MWH, found on page 3 of Exhibit 8, and adding an equivalent marginal cost of capacity of \$8.56/MWh (\$5/KW-mo at 80% load factor) along with the above transmission and distribution charges of \$6.63/MWH.

Assumptions, Calculations and Sources, Tables I, II, III – Page 4, Paragraph 5

The underlying assumptions, calculations and sources regarding information contained in Tables I, II, and III are provided in the text of WPS-ESI's Attachment C, as notes in the Tables, and in other parts of this response document. The details are listed below:

Table 1 – Power Purchase Option Comparison

Power and Energy – As noted on Table 1, this price was obtained from Attachment A of Corn Ed's Rider PPO, See Exhibit 9 of this response. The use of this LWAMV is explained in the text of WPS-ESI's Attachment C on page 5.

Transmission to WPSC -These figures are the total transmission charges on the available transmission paths from Corn Ed control area to the WPSC control area and are obtained from the OATT of each transmission owning company in the path. They include ComEd at \$1,060/mw/mo, or \$1.81/mwh at 80% load factor. The path into Wisconsin is either on Wisconsin Electric at \$802/mw/mo, \$1.38/mwh at 80% load factor, or Alliant East at \$1,690/mw/mo, \$2.90/mwh. These are firm point-to-point tariffs that total \$3.20/mwh CE-WE and \$4.70/mwh CE-ALTE. A load factor of 80% is assumed to be equivalent to the system average for large industrial customers in the WPSC service area.

WPSC Delivery -The derivation of these costs was outlined in the previous response regarding the use of WPSC Docket No. 6690-UR-111.

CE Total with Losses -This figure is an approximation of total losses on the ComEd transmission system, the WE or Alliant East transmission and the WPSC transmission and distribution system. Transmission losses are normally assumed to be 2-3% on each system. Normal distribution losses are 4-5%. In total 10% is a conservatively low estimate for delivering power and energy from a ComEd source to the retail customer in WPSC's service area. The total must include WPSC system losses since they are in the rate revenue requirements for the WPSC average rate.

WPSC Average Industrial Rate – The derivation of this figure is explained in the previous response regarding the use of Docket No. 6690-UR-111.

Table II – Market Index Comparison

Power and Energy – The derivation of this cost for power and energy from ComEd is explained on page 7 of WPS-ESI's Attachment C. It is an all-in, average energy and capacity price based on market index prices plus a \$1.71/mwh capacity price differential from 100% load factor to a system average load factor of 80%. Exhibit 10 of this response provides the ComEd Hub and Southern MAIN index price data used to calculate the market price of power and energy in Table II.

All other components of Table II were explained in Table I above or in the previous response regarding use of WPSC's Docket No. 6690-UR-111.

Table III – Incremental Cost Comparison

Power and Energy – This power and energy figure is obtained from ComEd's Rider 4 tariff and was provided by Bruce Larsen of the ICC Energy Division staff. Mr. Larsen provided an \$18.2 power and energy price which includes \$5/kw-mo for capacity. The \$19.9 figure in Table III includes a \$1.71/mwh adder for converting the capacity charge from 100% load factor to 80%.

All other components of Table III are explained in the response for Table 1 or the previous response regarding WPSC's use of Docket No. 6690-UR-111.

Lockport – Lombard 345 KV Upgrade, Page 4, Paragraph 6

WPS-ESI's reason for believing this line upgrade is not scheduled for completion by Summer of 2000 is because the MAIN ATC calculations and all transmission requests made by WPSC for the Summer of 2000 have not factored in completion of this line. WPS-ESI has heard from the ICC staff that ComEd is attempting to complete the line by the Summer of 2000 but is not aware of any official schedule or notification to this effect.

Since this line is an existing limiting element in MAIN ATC calculations and contributes to a negative ATC, completion of its upgrade will likely reduce, but not eliminate, the

physical delivery constraints asserted on pages 11-13 of Attachment C. According to MAIN Summer 2000 ATC results, removing the Lockport-Lombard limiting elements will increase ATC on Illinois -Wisconsin transmission paths by approximately 250 MW. Since loop-flows on the western interface into Wisconsin occur when power is moved south-to-north from Illinois, the constraining element moves to the western interface. It will not be upgraded by Summer of 2000. The additional 250 MW is approximately 2.5% of the peak load served in southern and eastern Wisconsin. Although the Lockport-Lombard increases transfer capability to Wisconsin, it does not eliminate the physical constraints. However, if the entire portion of increased capacity were to be used to move power from Illinois utilities to the WPSC control area, WPS-ESI's physical delivery constraint assertions would no longer be reasonable.

Physical Delivery from MEC, Interstate Power, and Sault Beloit, Page 4, Paragraph 7

As mentioned previously in WPS-ESI's response to the Hearing Examiner's request for information, Mid American and Interstate Power connect to the Alliant West system, which is on the same side of the Illinois -Wisconsin interface as the other Illinois utilities. The path between Alliant East and Alliant West is a contract path, for all intents and purposes, that utilizes the ComEd transmission system. Physical delivery constraints for MEC and Interstate are the same as those described in WPS-ESI's Attachment C. These discussions do not appropriately apply to South Beloit.

WPS-ESI, however, has withdrawn its intention to serve load in these three service areas and does not wish to further support its assertions regarding physical delivery from these areas at this time. Should WPS-ESI reapply for these areas in the future all such assertions will need to be supported by system conditions in existence at that time.

Table III Restated for Utilities Other Than ComEd – Page 5, Paragraph 1

Exhibit 11 of this response shows an equivalent Table III – Incremental Cost Comparison, from WPS-ESI's Attachment III for three other utilities where the data was available in time for the filing of this response. Each of the additional tables support WPS-ESI's assertion that power and energy can not be economically delivered by Illinois utilities to WPSC retail customers.

WPS-ESI objects to the Commission's granting a certificate for only those electric service territories for which the applicant has provided incremental cost data. The basis for WPS-ESI's objection is summarized in the text on pages 9-10 of Attachment C that accompany the incremental cost comparison of Table III. These costs do not represent the marginal cost of serving additional loads, like that in WPSC's control area, over and above native loads the utility generation serves in Illinois. Sales of system average generation from Illinois utilities to WPSC retail customers lack economic sense when considering the selling price needed to overcome the wheeling and delivery costs into WPSC and still remain competitive. This system average energy can be sold for higher wholesale and retail prices in Illinois as indicated by the power and energy prices used in Tables I and II of Attachment C.

This concludes WPS-ESI's response to the information requests made in the Notice of Hearing Examiner's ruling regarding the application for Certificate of Service Authority in Docket No. 00-0199. Thank you for reviewing the application and for the opportunity to provide clarifying information.

A handwritten signature in black ink, appearing to read 'Mark A. Radtke', with a stylized flourish at the end.

Mark A. Radtke
President – WPS Energy Services, Inc.

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March 21, 2000

WPS Energy Services, Inc.)

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Docket No: 00-0199

Application for Certificate of Service Authority)

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Under Section 16-115 of the Public Utilities Act.)

NOTICE OF FILING

PLEASE TAKE NOTICE that on March 21, 2000 the undersigned filed with Donna Caton, Chief Clerk of the Illinois Commerce Commission, **RESPONSE TO THE HEARING EXAMINER'S RULING**; service of which is being made upon you.



Mark Radtke
President, WPS Energy Services, Inc.
WPS Energy Services, Inc
677 Baeten Road
Green Bay, WI 54304

March 21, 2000

WPS Energy Services, Inc.)

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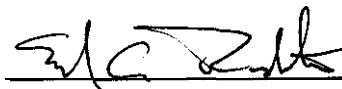
AFFIDAVIT OF MAILING

Mr. Mark Radtke, being first duly sworn on oath, deposes and says that he is employed by WPS Energy Services, Inc. located in Green Bay, Wisconsin and that on the 20th day of March, 2000, he caused a copy of:

RESPONSES TO THE NOTICE OF HEARING EXAMINER'S RULING

to be sent in an envelope provided by Federal Express, addressed to the following named individual, and deposited the envelope at the Federal Express Station located at Waube Lane in Green Bay, Wisconsin.

Donna Caton
Chief Clerk
Illinois Commerce Commission
527 East Capitol Avenue
Springfield, IL 62794-9280



SUBSCRIBED AND SWORN TO BEFORE ME
This 20th day of March, 2000.



NOTARY PUBLIC